

**THE INDIRECT EFFECT OF HIGH COMMITMENT HR PRACTICES AND
CHARISMATIC LEADERSHIP ON FIRM PERFORMANCE**

A Thesis

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of Cornell University**

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by

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ABSTRACT

In this study, I examine the simultaneous effect of high commitment HR practices (HCHR) and charismatic leadership on firm performance through employee attitudes (affective commitment) and behaviors (customer service orientation and helping). I posit that HCHR practices and charismatic leadership are key drivers of employee attitudes and behaviors and need to be examined together given that they operate simultaneously in organizations. Further, when examined together I posit that HCHR practices and charismatic leadership will have a positive and additive effect on employee attitudes and behaviors, which will affect firm performance. I analyzed data collected in small firms using structural equation modeling. Results show that both HCHR practices and charismatic leadership affect employee attitudes and behaviors. Further, HCHR practices and charismatic leadership affected firm performance through affective commitment and customer service orientation; results did not support the link between helping and firm performance. Lastly, charismatic leadership appeared to have a larger effect on employee affective commitment than HCHR practices.

BIOGRAPHICAL SKETCH

Elizabeth J. McClean is M.S./Ph.D. student in the Human Resource Studies program in the School of Industrial and Labor Relations. Her current research is in the area of Strategic Human Resource Management. Specifically, she is interested in examining how systems of human resource practices contribute to firm competitive advantage.

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INTRODUCTION

Strategic management theory and research has wavered between examining internal and external sources of competitive advantage and recently, researchers are taking a more internal perspective (Hoskisson, 1999). With this turn towards internal sources of competitive advantage, the field of strategic human resource management (SHRM) flourished. SHRM refers to how bundles of human resource (HR) practices are critical to organizational effectiveness (Boxall & Purcell, 2000); the bundles of HR practices represent an organization's strategy for managing its employees (Sun et al., 2007). Several studies provide evidence that a specific bundle of HR practices- called high commitment HR practices (HCHR) - impacts firm performance across a variety of dependent variables (Delery & Doty, 1996; Huselid, 1995; MacDuffie, 1996). The HCHR strategy is distinct from others (e.g., the "control" or transactional HR strategies) in that it fosters a high-involvement employee-employer relationship and motivates employees to contribute above and beyond the basic requirements of their jobs (Batt, 2002; Tsui et al., 1995). In short, researchers in strategic HR management have concluded that a positive relationship between HCHR and firm-level performance exists.

Similarly, the field of strategic leadership grew substantially in recent years. Myriad studies address the role of leadership beginning with classics such as Barnard (1939), Fayol (1949), and Mintzberg (1973) which focused on various leader roles to more recent studies of contemporary upper echelons theory which focus on the demographic characteristics of leaders and top-management teams (Finkelstein & Hambrick, 1996). Researchers also now focus on attributes of the leader, namely transformational or charismatic characteristics, although, the empirical evidence of the effects of these characteristics on performance is still relatively weak (Ling, Simsek, Lubatkin, & Veiga, 2008).

Despite the importance of HCHR practices and leadership, typically researchers study the effect of each separately, but within organizations they act simultaneously. Various factors that affect performance should be examined together given that the overall goal of strategic management is to understand what drives competitive advantage and the best way to understand this is by examining the dynamic interrelationships among resources (Hoskisson et al., 1999).

Further, researchers call for contextualizing HR (Jackson & Schuler, 1995) and I respond by examining the effect of HR in conjunction with CEO charismatic leadership. Charismatic leadership has received a plethora of attention in both academic and industry research journals and is another potentially important resource that can affect employees and firm performance, but it is rarely examined in the context of other organizational variables despite its popularity. I chose these two organizational variables- HCHR practices and charismatic leadership- because they are prominent internal factors that have been shown to affect employees and organizational outcomes.

To foreshadow my arguments, I posit that they are both key drivers of employee motivation and need to be examined together given that they operate simultaneously in organizations. Further, when examined together I posit that they will have a positive and additive effect on employee attitudes and behaviors, which will affect firm performance. Research on substitutes for leadership, which suggests that other employee, task, and organization characteristics can substitute for a leader's ability to influence employees (Miner, 2002), is criticized recently for focusing too much on the substitutes themselves instead of viewing leadership as one mechanism to control and influence employees; I respond to this criticism by examining leadership as "one factor among many" (723) that can indirectly influence firm performance

(Miner, 2002). Therefore, the first goal of this study is to understand the relative effect of HCHR and charismatic leadership when examined simultaneously.

Further, research that explains the process through which HR affects firm performance is still lacking. Many call for more research on the “black box” between HR and firm performance, specifically because HR is most likely to affect more proximal outcomes including employee affective reactions (i.e., satisfaction or commitment) and behavioral reactions (i.e., absenteeism or turnover) (Dyer, 1984; 1995). Additionally, research examining the link between transformational leadership and firm performance suggests that the effect is due to leaders’ ability to overcome inertial forces and adapt to dynamic environments (Ling et al., 2008), while other more proximal mechanisms, such as employee attitudes and behaviors, remain understudied. Therefore, the second goal of this study is to more fully understand the process through which HR and charismatic leadership affect firm performance, specifically through employee attitudes (affective commitment) and behaviors (customer service orientation and helping).

Lastly, most research in SHRM and strategic leadership is conducted in larger (often public) firms (Way, 2002; Ling et al., 2008), but we know less about how these variables affect firm performance in smaller organizations. In regard to leadership behaviors, the less complex nature, greater participation in managing employees, and more discretion afforded to leaders within small firms suggests that their behavior may affect performance differently (and potentially more) than in larger firms (Ling, 2008). Further, I focus here on CEO charismatic leadership and not on the top management team given that, unlike larger firms, small firms are less likely to have an intact and formal team of leaders. Similarly, although evidence exists that HCHR practices in small firms still affect firm performance despite the increased cost to using them (Way, 2002), the impact of these practices may vary when controlling for other

organizational factors. Therefore, in order to strengthen the case for using HCHR practices in small businesses, it is necessary to control for other organizational variables, in this case CEO charismatic leadership, which may also impact the firm's employees and performance. Further research is needed given that small firms contribute to the majority of the U.S. economy (U.S. Small Business Administration, 2006); therefore, the third goal of this study is to test the effect of HCHR practices and CEO charismatic leadership in small firms.

In the next section, I first focus on the separate effects of HCHR practices and charismatic leadership on employee attitudes and behaviors. Then, I focus on the effects of HCHR practices and charismatic leadership on firm performance through employee attitudes and behaviors. Lastly, I compare the effect of HCHR practices and charismatic leadership when tested simultaneously (see Figure #1 for hypothesized model).

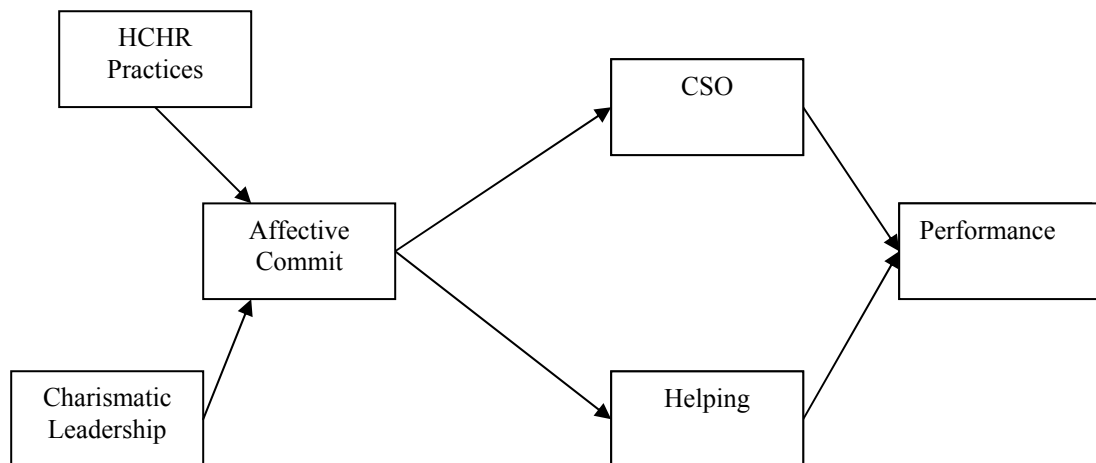


Figure #1:
Hypothesized Model

THEORY

The Effect of High Commitment Human Resource (HCHR) Practices on Employee Attitudes and Behaviors

HCHR practices include three main human resource subsystems: (1) selection, (2) appraisal and rewards, and (3) employment relations (Bamberger & Meshoulam, 2000; Sun et al., 2007). Across these subsystems, these practices are an organization's overall strategy to manage the employment relationship. Several scholars note that empirical research in the field of SHRM has done little to test the processes through which HCHR practices impact firm performance (e.g., Becker & Huselid, 2006; Wright, et al., 2005) and in order to move the field forward, we need to develop and test the mediating mechanisms through which HCHR practices create value and lead to firm performance (Collins & Smith, 2006).

Dyer and Reeves (1995) posited that there are four levels of outcomes that HR practices affect- employee, organizational, financial, and market, each affecting the other beginning with the employee outcomes. Employee outcomes include attitudes and behaviors such as satisfaction, commitment, turnover, or absenteeism. Organizational outcomes include operational performance measures such as productivity or customer satisfaction. Financial outcomes represent profits or revenue measures, while market outcomes relate to the market value of firms such as stock price (Dyer & Reeves, 1995). Others in the field of SHRM agree with Dyer and Reeves (1995) and suggest that to understand the effects of a system of HR practices, we need to assess its impact on employee outcomes first given that HR is likely to work outward from these to financial and market performance (Sun, Aryee, & Law, 2007).

Following Dyer and Reeves (1995), I suggest that HCHR practices indirectly affect performance by influencing employee customer service orientation and helping

behaviors via affective commitment. Using social exchange theory, I suggest that HCHR practices create a mutual obligation in which the employer is committed to the employee, resulting in greater employee commitment which is manifested by behaving in a way that benefits the firm (Tsui et al., 1995). This idea is based on the inducement-contribution model (March & Simon, 1958) whereby HCHR practices affect motivation because they create inducements through a supportive work environment that satisfies the employee's needs. The inducements provided by the employer create an obligation from the employee to contribute in such a way that satisfies the employer's goals resulting in a high involvement employee-employer relationship (Sun et al., 2007). Social exchange offers a basis to understand how a system of HCHR practices can affect employee motivation by creating a positive work environment that induces them to contribute, however, additional explanation is needed to examine the processes through which each subsystem affects employee motivation.

To begin, the high commitment selection and staffing practices include: selecting employees based on their long-term potential to contribute to the company, fit with the culture, and ability to work with the current employees. These practices affect employee motivation because they create a positive work environment of highly skilled people (Collins & Smith, 2006). Research on person-organization fit suggests that fit perceptions affect subsequent employee attitudes towards the job and organization. In this case, firms that use HCHR selection practices such as hiring based on fit allow employees to satisfy their psychological needs because they are more likely to fit with the organization (Greguras & Diefendorff, 2009) and once these are satisfied, employees will be more intrinsically motivated to perform (Deci & Ryan, 2000). Therefore, these selection practices trigger the process of social exchange to

take place; they help meet employees' needs which makes them more committed and motivated to reciprocate by behaving in a way that benefits the firm.

The second subsystem of HCHR practices- appraisal/rewards- includes practices such as providing incentives to employees, using performance appraisals to develop new skills, and providing regular feedback to employees. Providing incentives to employees induces them to contribute in a way that is beneficial to the firm thereby emphasizing an exchange between the employer and employee (Sun et al., 2007). Providing feedback also induces an exchange relationship. Hackman and Oldham's (1980) job characteristics model suggests that providing feedback results in a psychological state of knowing the results of work activities which affects work motivation, satisfaction, and effectiveness (Miner, 2002). The use of performance appraisals to develop new skills acts as a signal to employees that the employer is interested in developing them and is invested in their progression as employees. These practices create a positive and supportive work environment that induces employees to contribute further.

The third subsystem of HCHR practices relates to the employment relationship. These practices include using job rotation, providing challenging work opportunities, clear roles and responsibilities, and sponsoring outside activities. Similarly, providing employees with skill variety (rotation), task identity (clear roles and responsibilities), and autonomy affect the meaningfulness of work and create a sense of responsibility for work outcomes, thereby motivating employees to contribute (Hackman & Oldham, 1980). Additionally, the sponsorship of outside social activities fosters the development of a supportive work environment and signals that the firm is interested and willing to invest in the social wellbeing of employees.

The combined effect of these three subsystems- selection, appraisal/rewards, and employment relations- is a work environment that is supportive which positively

affects employee attitudes and obligates them to behave in a way that will benefit the organization (Sun et al., 2007). In this particular study, I focus on the effect of HCHR practices on affective commitment and subsequent customer service orientation and helping behaviors. Given that the goal of the HCHR system of practices is to create a mutually committed relationship between the employer and employee, it follows that these practices would first affect the attitudes of employees- specifically their affective commitment.

Affective commitment refers to employees' emotional attachment to, identification with, and involvement in the organization (Allen & Meyer, 1990). HCHR practices create a long-term investment and mutual obligation in which the employer shows their commitment to the employee which employees reciprocate with greater commitment in exchange for favorable treatment (Meyer & Allen, 1997; Rousseau, 1989; Tsui et al., 1995). Given that firms using HCHR practices invest heavily in employees and create a positive work environment, employees will more likely be emotionally attached to, identify with, and involved in the organization because they will feel a sense of obligation to care about the organization's welfare (Rhoades, Eisenberg, & Armeli, 2001). This exchange relationship follows closely with Rousseau's research on the psychological contract concerning mutual obligations between the employer and employee (1995). Specifically, relational contracts defined by open-ended, long-term commitments by both the employee and organization are maintained by organizational actions that meet employees' needs which affect employee commitment to the organization (Rousseau, 1995). In this case, HCHR practices create a long-term committed relationship with employees by meeting their psychological needs and motivating employees to reciprocate by being more committed to the organization. Empirical studies provide evidence that a greater investment in employees through a system of HCHR practices does in fact motivate

employees to reciprocate through higher organizational commitment, one aspect of which is affective commitment (Wright, Gardner, & Moynihan, 2003). Further, research on perceived organizational support provides evidence that this reciprocation process occurs: when employees perceive the organization as supportive they exhibit more affective commitment through a process of felt obligation to care about the organization's welfare (Eisenberger, Armeli, Rexwinkel, Lynch, & Rhoades, 2001).

The full effect of the reciprocation process does not end with employee attitudes, but rather, based on the social exchange perspective, employees reciprocate their commitment through their behaviors. In this case, I argue that HCHR practices will affect work related behaviors through their affective commitment; specifically, I chose to focus on two employee behaviors that are pertinent to the success of firms across industries. The first behavior- customer service orientation- relates to whether employees are oriented towards the customer when performing their jobs (Susskind, Kacmar, & Borchgrevink, 2003). The second behavior- helping- is an organizational citizenship behavior that relates to how employees behave towards their co-workers (Podsakoff et al., 2000).

To begin, when employees are emotionally attached to and involved in an organization, they are more likely to behave in a manner that better serves the customer. In this case, employees will be more motivated to contribute because HCHR practices signal an investment by the employer which triggers employees' affective commitment and induces them to behave in a way that benefits the firm. The general orientation of employees towards customers represents one behavior that employees can engage in that benefits the firm. I define the general orientation towards serving the customer as customer service orientation or "the importance that service providers place on their customers' needs relating to service offerings and the extent to which service providers are willing to put forth time and effort to satisfy their customers"

(Susskind et al., 2003: 181). Sun et al. (2007) found support that HCHR practices positively affected service-oriented OCBs in the hotel industry and Bettencourt, Gwinner, & Meuter (2001) found support that employee job attitudes affected service-oriented OCB. Given that employee attitudes drive employee customer oriented behavior, I posit that HCHR practices will affect employee affective commitment which will motivate employees to be more oriented towards the customer.

Similarly, HCHR practices induce employees to contribute above and beyond the basic job requirements through discretionary behaviors towards their co-workers. These discretionary behaviors are conceptualized as organizational citizenship behaviors (OCB). OCB contribute “to the maintenance and enhancement of the social and psychological context that supports task performance” (Organ, 1997). Helping behaviors represent one dimension of OCB that are important across organizational contexts. Helping behaviors focus on actions that assist other co-workers with work related problems (Podsakoff et al., 2000). In this case, when employees are more committed, they are more likely to put forth extra effort by helping co-workers when they are absent from work, have heavy work-loads, or work related problems. Additionally, results from empirical research provide robust evidence that affective commitment is a predictor of helping behaviors (Podsakoff et al., 2000) Therefore, I posit that HCHR practices affect employee affective commitment which motivates employees to engage in helping behaviors.

I note that additional variables may mediate the relationship between HCHR practices and customer service orientation and helping behaviors and therefore hypothesize partial mediation. For example, previous research suggests that HCHR practices can affect both employee human capital and motivation (Huselid, 1995; Wright et al., 2001) which suggests that other factors such as ability may mediate the relationship. Additionally, other employee attitudes that are distinct from affective

commitment, such as satisfaction or continuance commitment may be important intervening variables.

Therefore, I propose the following hypothesis:

Hypothesis #1: Affective commitment will partially mediate the relationship between HCHR practices and employee customer service orientation and helping behaviors.

Given the first purpose of this study is to understand the effect of HCHR in context with other potentially important organizational variables, I next examine the effect of charismatic leadership on employee attitudes and behaviors.

The Effect of Charismatic Leadership on Employee Attitudes and Behaviors

The field of strategic management increasingly has become interested in the effect of top leaders on strategy and firm performance. Traditionally, this field of research focused on the impact of top leaders' demographic and background characteristics on firm performance (Hambrick & Mason, 1984; Hitt & Tyler, 1991). Recently, researchers focused on other leader characteristics- such as personality and charisma- to explain leader effects on performance.

Waldman, Javidan, & Varella (2004) proposed and integrated charismatic leadership theory with the upper echelons perspective to better understand the leadership role of CEOs. There is one of the few studies to find that CEO charismatic leadership measured at one point in time predicts subsequent firm performance (Ling et al., 2008). Despite the lack of findings, researchers in this field add to the theoretical understanding of leader effects on performance beyond strategic choice. Additionally, the general lack of findings may underestimate the effect of leaders on firm performance and therefore, I suggest that researchers have ignored a possible indirect effect on performance; I focus on the process or indirect paths through which charismatic leadership affects performance.

Finkelstein and Hambrick (1996) suggested that charisma could affect firm performance by influencing strategic choices through their field of vision, perception of information, and strategic decision making. They also suggest that charisma could affect leader behaviors that affect the organizational functioning of the firm, however, Finkelstein and Hambrick's (1996) suggestion ignores several other avenues beyond strategic choice for why charisma should affect performance. Most importantly here, they ignore the indirect effect of leader charisma on performance through follower (employee) motivation.

Theories of charismatic leadership suggest that charismatic leaders affect followers through their emotions, valence towards the leader's mission, self-esteem, trust, and confidence in the leader, and intrinsic motivation (Shamir, House, & Arthur, 1993). This theory of leadership is different from others because it emphasizes visionary and inspirational messages, nonverbal communication, appeal to values, intellectual stimulation of followers, expectations of follower self-sacrifice, and performance beyond the call of duty (Shamir et al., 1993). In particular, this theory of leadership is in contrast to others that emphasize supportive behavior (House, 1971), exchange relationships (Hollander, 1964), and reinforcement behaviors (Podsakoff, Todor, & Skov, 1982).

In this study I specifically define charisma based on the work of Conger and Kanungo (1998) which focuses on a leader's ability to (1) articulate and provide a consistent and inspirational strategic vision, be sensitive to his/her (2) environment and (3) members' needs, (4) be willing to take personal risks for the good of the firm, and (5) engage in unconventional behavior to achieve organizational goals. These dimensions of charisma motivate employees to follow such leaders because they perceive the leaders to be extraordinary; their model of charisma focuses on the behaviors of leaders that result in the attribution of charisma.

Providing a consistent and inspirational strategic vision refers to consistently generating new ideas for the future, being an exciting public speaker, and being inspirational. Sensitivity to the environment includes recognizing the constraints of the physical environment (i.e., lack of resources) as well as the social and cultural environment (i.e., cultural norms). Sensitivity to members' needs includes showing sensitivity for the needs and feelings of employees, expressing personal concern for the feelings of others, and influencing others by developing a mutual liking and respect. Taking personal risks refers to incurring high personal cost for the good of the organization and engaging in behaviors that involve considerable personal risk when pursuing organizational objectives. Lastly, partaking in unconventional behavior includes using nontraditional means to achieve goals or exhibiting unique behavior that surprises employees (Conger & Kanungo, 1997)

Research using this theory of leadership provides evidence that charismatic leaders profoundly affect follower attitudes, behaviors, and performance (Shamir et al., 1993). Two meta-analytic reviews provide consistent and positive evidence that transformational and charismatic leadership behaviors affect outcomes including satisfaction and performance (Fuller, Patterson, Hester, & Stringer, 1996; Lowe, Kroeck, & Sivasubramanian, 1996). I suggest that this research provides the missing link between charismatic leadership and firm performance. Specifically, I posit that charismatic leadership affects firm performance indirectly through its effect on employee attitudes and behaviors. In sharp contrast to that suggested by Finkelstein and Hambrick (1996), I take a motivational perspective to explain the effect of charisma on firm performance through employee attitudes and behaviors.

Shamir et al. (1993) noted the need for a motivational explanation for the effect of charismatic leaders on followers. Previous theories emphasized charismatic leaders' ability to elevate followers' needs in accordance with Maslow's hierarchy

(Bass, 1985), raise followers' morality (Burns, 1978), and motivate followers to go above their own self-interest for the good of the firm (House, 1977). In contrast, Shamir et al. (1993) posited that charismatic leaders can affect followers' self-efficacy, social identification with the group, and self-engagement with work by: (1) increasing the intrinsic valence of effort, (2) increasing effort-accomplishment expectancies, (3) increasing the valence of goal accomplishment, (4) instilling faith in a better future, and (5) creating personal commitment. In general, they suggest that followers of charismatic leaders find their work more meaningful and therefore, are more self-engaged.

Increasing intrinsic valence of goal accomplishment is a critical motivational aspect of charismatic leadership (Shamir et al., 1993). Charismatic leaders present and carefully articulate a vision or goals, which makes accomplishing these goals more meaningful by being consistent with the follower's self-concept. By articulating goals and providing a vision, the leader brings meaning to the followers' lives by connecting them to a larger entity that transcends their own existence (Shamir et al., 1993).

Similarly, when a charismatic leader provides an inspirational strategic vision, he or she can also increase the intrinsic valence of the effort (not just the goal). A charismatic leader can articulate the importance of what employees are doing which makes the effort more meaningful; participation in the effort becomes an expression of a collective identity. This collective identity can then become more important to an employee, thus increasing the value of the effort for the employees.

A charismatic leader can also increase followers' effort-accomplishment expectancies through his or her sensitivity to followers' needs. When a leader is sensitive to the followers' needs and feelings, he or she may enhance the followers' self-efficacy, which is directly related to motivation (Bandura, 1986, 351). Additionally, the charismatic leader recognizes the abilities, skills, and limitations of

members in the organization and can adjust his or her behavior which can also increase member confidence and trust in the leader (Conger & Kanungo, 1998).

A fourth way that a charismatic leader can affect followers' motivation is through instilling faith in a better future. This is done by articulating a future vision, talking about possibilities for the future, generating new ideas for the future, and recognizing new environmental opportunities. By focusing on future opportunities, the charismatic leader emphasizes the intrinsic rewards of followers' efforts which include self-expression, self-efficacy, and self-consistency (Shamir et al., 1993). Shamir et al. (1993) notes that although traditional models of leadership emphasize the motivational aspect of proximal, specific goals, the charismatic model of leadership emphasizes less proximal, more vague goals that include the goal of a better future, which (they claim) is a motivator in itself.

Lastly, creating personal commitment is accomplished through several behaviors presented by Conger and Kanungo (1998). Personal commitment refers to "a motivational disposition to continue a relationship, a role or a course of action and to invest efforts regardless of the balance of external costs and benefits and their immediate gratifying properties" (Shamir et al., 1993; 583). When a charismatic leader is sensitive to the environment by recognizing the strengths and weaknesses of both members and the physical, social, and cultural aspects, members are more likely to trust and respect the leader which will make them more personally committed. Charismatic leaders increase the importance of identifying with the organization and therefore create personal commitment to the organization by articulating an inspirational strategic vision with a focus on the future goal attainment, being sensitive to the strengths and weaknesses of the environment and members, taking personal risks for the good of the organization, and using unconventional methods to achieve their goals (Shamir et al., 1993).

Although researchers rarely test the processes through which charismatic behaviors affect followers, one relatively recent study by Bono and Judge (2003) provides at least some evidence for the self-concept-based theory described above. Their study shows that followers of transformational leaders (which focuses on charisma in addition to other leader behaviors) have greater self-concept engagement with their work; employees perceive their work activities to be more important and self-congruent. Further, they found that when individuals are more self-engaged in their work, they are more likely to be satisfied with their job, be willing to help out, and do better on a simple task.

I posit that through this motivational framework, charismatic leaders will positively affect followers' attitudes, specifically affective commitment, which will make them more oriented towards the customer and engage in helping behaviors because they will find their work more meaningful and be more motivated to act in a way that benefits the firm. As previously mentioned, affective commitment refers to an employees' emotional attachment to, identification with, and involvement in the organization (Allen & Meyer, 1990). Charismatic leaders can affect motivation by creating a high level of personal commitment to a common mission, vision, or goal. Further, "their art is to manufacture ethics to give life through commitment to the spirit of the organization" (Hodgkinson, 1983; 218). Charismatic leaders foster commitment by providing a clear and decisive vision, by encouraging collective identity and stimulating pride in the organization, and by linking work values to those of followers (Bono & Judge, 2003). These leader behaviors affect employees' self-concept, self-efficacy, and social-identification with the organization which makes them more emotionally attached to and involved in the organization. When employees are more committed, they are more likely to want to spend their careers at the organization, discuss the organization with people outside of it, feel emotionally

attached to the organization, and feel as if the company's problems are their own. Shamir et al. (1993) suggested that when leaders exhibit these behaviors, employees will be more committed to the leader and their mission (in this case, the organization).

Further, as mentioned above, employee affective commitment will affect their subsequent work related behaviors- customer service orientation and helping. When employees are more committed, they are more likely to behave in a manner that better serves the customer. Charismatic leadership will impact employee affective commitment which will motivate them to put forth the effort to better serve the customer because they will have an increased valence of the effort, goal accomplishment, and the effort-accomplishment expectancy. Employees of charismatic leaders will be more oriented towards the customer because they will be more emotionally attached to and involved in the organization and therefore view serving the customer as an important organizational goal; employees will pride themselves on belonging to the organization and will be more likely to exhibit behaviors that are valued. Recent empirical work suggests that leader behavior affects employee behavior towards the customer. For example, Schneider et al. (2005) suggests that leader behavior creates a service climate which affects employee customer-oriented OCB and Borucki and Burke (1999) found that managers' concern for employees stimulated service-oriented behaviors. I suggest that this process occurs through affective commitment; leader behavior affects employee attachment to and identification with the organization by increasing the value of working for the organization which motivates employees to be oriented towards the customer.

Similarly, when employees are more committed to the organization, they are more likely to put forth extra effort by helping co-workers when they are absent from work, have heavy work-loads, or have work related problems. Shamir et al. (1993) suggested that followers of charismatic leaders will be more willing to engage in

OCB. Particularly, when a charismatic leader articulates inspirational goals and provides a vision, the leader connects the followers to a larger entity that transcends their own existence (Shamir et al., 1993). I suggest that by connecting the followers to the organization, they will be more emotionally attached to and involved in the organization which will induce them to be more other oriented because they will understand the benefit of assisting co-workers when needed and be more willing to go above and beyond their own job responsibilities by engaging in discretionary behaviors such as helping.

I note that additional variables may mediate the relationship between charismatic leadership and customer service orientation and helping behaviors and therefore hypothesize partial mediation. For example, charisma can affect job characteristics (Piccolo & Colquitt, 2006) or emotions, both of which may affect subsequent behaviors. Additionally, other employee attitudes that are distinct from affective commitment, such as satisfaction or continuance commitment may mediate the relationship.

Therefore, I propose the following hypothesis:

Hypothesis #2: Affective commitment will partially mediate the relationship between charismatic leadership and employee customer service orientation and helping behaviors.

The Indirect Effects of HCHR practices and Charismatic Leadership on Performance through Employee Attitudes and Behaviors

Further, I posit that these two behaviors- customer service orientation and helping- will be important drivers of performance. Customer service orientation is the level of employees' commitment to the customer and their resulting efforts that will lead to greater customer satisfaction. Employee orientation towards the customer is critical to overall performance within service firms because customers take part in the

production process and are sensitive to cues indirectly related to service (Podsakoff & Mackensie, 1997). This orientation is also important in other industries, including manufacturing, because it affects the quality and efficiency of production which ultimately affects customer satisfaction and firm performance.

The importance of employee behavior towards customers to firm performance is well established (Schneider, Eherhart, Mayer, Saltz, & Niles-Jolly, 2005). When employees deliver superior service, customers are more likely to be satisfied and return for future service (Borucki & Burke, 1999). In a recent study on the organization-customer links in service settings, Schneider et al. (2005) found that customer-oriented behaviors (termed customer-oriented OCB) affected customer satisfaction and ultimately sales. I argue that customer-oriented behaviors will also affect performance in a similar way in other industries (i.e., manufacturing or construction firms) because service is one way that these firms can differentiate themselves. Additionally, employee orientation towards the customer during the production process may help reduce errors and inefficiencies which affect productivity and quality and ultimately the customer's experience with the product.

Employee helping behavior is also a driver of firm performance. Helping behaviors focus on actions that help another co-worker with a work related problem (Podsakoff et al., 2000). Podsakoff et al. (2000) suggested that OCBs in general affect organizational performance because they: enhance coworker productivity, enhance managerial productivity, free up resources for more productive purposes, reduce the need to devote scarce resources to maintenance functions, or enhance the stability of organizational performance. For these reasons, I posit that helping behaviors will be significantly related to performance because when employees put forth extra effort by helping co-workers when they are absent from work, have heavy work-loads, or work related problems, productivity, quality, and efficiency are positively affected.

Additionally, several empirical studies that examined the specific effect of helping behaviors at the unit or firm level on organizational performance suggest that these behaviors are significantly related to the sales, quantity produced, and quality of the product (Podsakoff et al., 2000).

Employee attitudes affect the extent to which they engage in specific work-related behaviors (Podsakoff et al., 2003). Above, I established that employee affective commitment positively affects both customer service orientation and helping behaviors because when employees are more attached to, identify with, and involved in the organization, they will be more likely to behave in a manner that positively affects the firm. Because helping and customer service orientation are drivers of performance, and affective commitment affects these behaviors, firms need to develop employee affective commitment in order to increase firm performance. I posit that both HCHR practices and charismatic leadership will drive affective commitment and motivate them to be more oriented towards customers and help co-workers which will positively affect firm performance. Please note that other employee behaviors may intervene between affective commitment and performance and therefore, affective commitment may also have a direct effect on firm performance.

Therefore, I propose the following hypotheses:

Hypothesis #3: HCHR practices will indirectly affect performance through employee affective commitment, customer service orientation, and helping behaviors.

Hypothesis #4: Charismatic leadership will indirectly affect performance through employee affective commitment, customer service orientation, and helping behaviors.

The Relationship between High Commitment Human Resource Practices and Charismatic Leadership on Employee Attitudes and Behaviors

To this point, I argued that both HCHR practices and charismatic leadership affect employee attitudes and behaviors which in turn affect firm performance,

however, to see the value of each internal source of competitive advantage I need to address the relationship between HCHR and charismatic leadership simultaneously. Schwab (2005) notes that in order to address internal validity, when variation in an independent variable is responsible for variation in a dependent variable, alternative explanations must be ruled out. Further, researchers who focus on internal sources of competitive advantage suggest that resources are nested within each other and the interrelationship between them is an important area of study (Hoskisson et al., 1999).

There are several alternative ways to address the relationship between HCHR and charismatic leadership and their effects on employee attitudes and behaviors. First, it is possible that HCHR and charismatic leadership serve as substitutes, which for example, suggests that in the absence of charismatic leadership, HCHR practices could replace its effect on employees or vice versa; I do not believe this to be the case. No research (to my knowledge) exists examining substitutes for HCHR practices, but there are myriad studies examining the effect of substitutes for leadership which is typically modeled with an interaction variable. Research results on substitutes for leadership generally are null suggesting that substitution is rarely found (Miner, 2002). Various scholars recently suggested that the substitutes research should be repositioned and that the “substitutes should be retained...but the substitute aspect should not” (Miner, 2002; 722). Additionally, “hierarchic leadership has no special status that requires substituting for it. It is simply one among many mechanisms used in hierarchic systems to achieving control and influence” (Miner, 2002; 723). Given this view of the leadership substitutes literature, I suggest that examining the interaction between HCHR and charismatic leadership is not the most appropriate way to determine the relationship between these two variables on employee attitudes and behaviors.

Instead, I argue that the main effects of each variable on employee attitudes and behaviors are more important and theoretically powerful. Based on my theoretical rationale outlined above for Hypotheses #1 and #2, I posit that in the presence of charismatic leadership, HCHR practices will still positively and significantly affect performance through employee attitudes and behaviors and vice versa because the effect is additive. I suggest that their effect on employees' attitudes and behaviors is additive such that when examined together, both will remain significant because each affects employee attitudes and behaviors through different motivational processes.

HCHR practices affect employee attitudes and behaviors through a process of social exchange. Using social exchange theory, I suggested above that HCHR practices create a mutual obligation in which the employer is committed to the employee, resulting in greater employee organizational commitment which is manifested by behaving in a way that benefits the firm (Tsui et al., 1995). March and Simon's (1958) model of inducement-contribution is the basis for the exchange and in this case, I argued that the HCHR practices, including those related to selection, appraisal/rewards, and employment relations, create inducements that impact affective commitment which motivates employees to contribute through their work-related behaviors. Without repeating the various components of each, the overarching logic is that HCHR practices motivate employees based on an *exchange* relationship. Employees contribute because they feel that the employer is invested and committed to them; the relationship is reciprocal where employees give back through various discretionary behaviors. Additionally, this exchange relationship is based on proximal, specific goals whereby both the employer and employee assume that goal attainment will lead to specific outcomes; there is a mutual understanding that an investment by the employer requires a contribution from the employee and that the employee will be

rewarded and further invested in. In many ways, this process mirrors that of traditional leadership theories such as leader-member exchange.

In contrast, charismatic leadership affects employee attitudes and behaviors by linking behavior to followers' self concepts, internalizing values and identities, increasing self-efficacy, emphasizing collective efficacy, creating a mission which serves as a basis for identification, and generating faith by connecting goals to a vision of a better future (Shamir et al., 1993; 585). This process is not based on an exchange relationship, but rather, it focuses on symbolic leader behavior, visionary and inspirational messages, nonverbal communication, and displays of confidence in self and followers, each of which gives work meaning and value without incentives or threats of punishment.

Given that HCHR practices and charismatic leadership affect employee attitudes and behaviors through two separate motivational processes, I posit that when examined together, both will remain positively and significantly related to employee affective commitment, customer service orientation, and helping behaviors. Further, organizations can affect employee attitudes and behaviors and therefore performance to a greater extent when they use HCHR practices in conjunction with charismatic leadership.

Therefore, I propose the following hypotheses:

Hypothesis #5a: In the presence of charismatic leadership, HCHR practices will remain positively and significantly related to employee attitudes and behaviors.

Hypothesis #5b: In the presence of HCHR practices, charismatic leadership will remain positively and significantly related to employee attitudes and behaviors.

METHODS

Data Collection Techniques and Sample

I chose small firms (SMEs) to test my hypotheses (average size of approximately 200 employees) because they have fewer levels of management that can dilute the effect of CEO charisma and are less constrained by outside influences such as Board of Directors (Ling et al., 2008). Additionally, researchers have not examined the role of HCHR practices in small firms as extensively as larger, for-profit firms and additional research is needed to understand their effect in this context.

The initial population included 2250 companies that are current and prospective clients of a publicly-traded HR outsourcing firm that provides an array of HR services to small businesses (e.g., payroll management systems and insurance pooling). The HR outsourcing firm funded the majority of the project, however, the researchers (there were several other researchers involved in the data collection process) involved had complete control over the design and execution of the study. A cover letter was sent to the CEO or top HR officer that explained the purpose of the survey and encouraged participation. The manager survey included items related to HCHR practices and firm performance. Of the 2250 number of companies that were surveyed for this particular study, I received data from the manager of 1132 companies representing 50% of the initial sampling frame. At the end of the manager survey, respondents were invited to participate in an additional phase by identifying at least four employees below the managerial level for a follow-up survey. The employee survey included items related to charismatic leadership, affective commitment, customer service orientation, and helping behaviors. Of these firms, I received responses from two or more employees from 192 companies for an employee response rate of approximately 17%.

Initially, my goal was to receive at least four employee surveys from each company, however, only 96 companies provided this data. Therefore, the sample of 192 companies includes 41 companies with more than two employees, 55 companies with more than three employees, and 96 companies with more than four employees. In order to preserve power for my statistical analyses, I decided to include all companies with two or more employee respondents.

The top managers (CEO or top HR officer) held their positions for on average 9 years and spent 15 years in their respective industries. Their firms employed an average of 207 employees and had been in business for 41 years. The companies include diverse industries such as: low-skill service (26%) (i.e., health and beauty spa), high-skill service (29%) (i.e., medical office), manufacturing (32%), and construction (3%).

Measures

Table #1 shows the correlations, means, and standard deviations for each variable discussed below.

Table #1
Correlations, Means, and Standard Deviations

Variable	Mean	Stand. Dev	HR	Lead	OC	CSO	Helping	Rev
HCHR Practices (HR)	3.50	0.59	1.00					
Charismatic Leadership (Lead)	4.20	0.73	.21(**)	1.00				
Organizational Commitment (OC)	3.50	0.76	0.23(**)	0.65(**)	1.00			
Customer Service Orientation (CSO)	3.90	0.43	.27(**)	.56(**)	0.55(**)	1.00		
Helping	3.80	0.43	.21(**)	.47(**)	0.45(**)	.65(**)	1.00	
Revenue (Rev)	12.13	16.80	0.11	0.23(**)	0.23(**)	0.21(*)	0.06	1.00

High commitment HR practices. Little consensus exists among researchers in the field of SHRM in regard to measuring HCHR practices (Delaney & Huselid, 1996). Variation across studies exists because the exact combination of HR practices that are considered high commitment differs across types of companies (Collins & Smith, 2006). Despite the different measures of HCHR practices, several studies provide a basis for measuring this variable. For example, Bamberger and Meshoulam (2000) suggested three broad HR subsystems including: people flow (i.e., staffing), appraisal and rewards, and employment relation. I used these three broad subsystems to develop a 13 item measure for HCHR practices that is applicable across industries (See Appendix A for exact items). Particularly, I focus on staffing, appraisal and rewards, and employment relationship practices that are grounded in previous studies including Collins & Smith (2006), Delery and Doty (1996), MacDuffie (1995), and Sun et al. (2007).

Delery (1998) suggested that various items measuring HRM practices should be grouped together based on theory and that an average or sum of these practices should be taken to represent the extent to which they are used. Further, he notes that Cronbach's alpha is a sufficient indicator of the reliability of the measure only when the HRM practices are caused by an underlying construct. Therefore, I am concerned with the factor structure and reliability of the individual subsystems of HR practices given that each represents a single construct. In this case, I measured the three subsystems mentioned above (staffing, performance/rewards, and employment relations) and conducted an EFA which resulted in four factors (with eigenvalues over 1.0) that I labeled selection ($\alpha = 0.77$), appraisal ($\alpha = 0.77$), rewards (α not calculated because only 2 items), and employment relation ($\alpha = 0.73$) (see Table #2).

TABLE #2

Exploratory Factor Analysis Results for High Commitment HR Practices- Four Factor Model

HR Practices	Factor Loading 1	Factor Loading 2	Factor Loading 3	Factor Loading 4
Selection 1	0.645			
Selection 2	0.822			
Selection 3	0.664			
Selection 4	0.647			
Selection 5	0.768			
Appraisal 1		0.793		
Appraisal 2		0.730		
Appraisal 3		0.815		
Rewards 1				0.652
Rewards 2				0.733
Employment Relation 1			0.835	
Employment Relation 2			0.663	
Employment Relation 3			0.826	
Eigenvalue	3.723	1.983	1.383	1.133

However, researchers in the field of SHRM prefer a unitary index of HR practices that are theoretically driven (Becker & Huselid, 1998). Items used to measure a system of HRM practices are different from those typically used in industrial psychology because they do not measure an underlying construct, but rather they are activities that an organization uses to help achieve its goals (Delery, 1998). Earlier, I posited that HCHR practices represent a system of practices and therefore, I used an additive index to reflect a single measure of an HR system (Batt, 2002; Huselid, 1995). The additive approach suggests that each set of practices or subsystem have independent and non-overlapping effects on the outcome. In this case, I posit that the practices used to manage selection, appraisal, rewards, and the employment relationship are independent, but that using more of these practices will result in a greater level of the outcome (Delery, 1998). Therefore, following past research, I

combined the measures for the three subsystems into a unitary index that represents the overall system of HR practices (Youndt, Snell, Dean, & Lepak, 1996; MacDuffie, 1995).

In addition, to further assess construct validity, I examined the relationship between HCHR practices and voluntary turnover, another indicator of a mutually committed employer-employee relationship (Collins & Smith, 2006). I found that HCHR practices were significantly and negatively related to voluntary turnover or the number of employees that had voluntarily left in the past year as a percent of all employees at the beginning of the year ($r = -0.257$, $p < 0.01$).

Charismatic leadership. I measured charismatic leadership with Conger & Kanungo's scale (1997) (see Appendix A for exact items). Particularly, I measured this variable using their revised scale of charismatic leadership that includes the following dimensions: strategic vision and articulation, sensitivity to the environment, sensitivity to members' needs, personal risk, and unconventional behavior. Because I was interested in understanding the overall effect of charismatic leadership I combined the separate factors into one. Exploratory factor analysis (EFA) revealed that the 20 items formed a single factor with an eigenvalue over 1.00. However, two items did not meet the minimum loading of 0.40 (Items #2 and #14; see Table #3). Therefore, these two items were left out of subsequent analyses. I was interested in obtaining an overall measure of charismatic leadership and therefore, these items should load on a single factor. I conducted a one-factor CFA and found that all items (excluding those mentioned above) loaded directly on charismatic leadership ($X^2 = 292.793$, $df = 115$, $p < 0.00$, $CFI = 0.932$, $IFI = 0.934$, $RMSEA = 0.09$). In the path models, I used a single charismatic leadership factor. The scale reliability is 0.96.

TABLE #3**Exploratory Factor Analysis Results for Charismatic Leadership**

HR Practices	Factor Loading
Leadership 1	0.812
Leadership 2	-
Leadership 3	0.748
Leadership 4	0.820
Leadership 5	0.613
Leadership 6	0.701
Leadership 7	0.878
Leadership 8	0.785
Leadership 9	0.743
Leadership 10	0.883
Leadership 11	0.867
Leadership 12	0.719
Leadership 13	0.842
Leadership 14	-
Leadership 15	0.844
Leadership 16	0.713
Leadership 17	0.857
Leadership 18	0.870
Leadership 19	0.713
Leadership 20	0.641
Eigenvalue	11.42

Affective commitment. Affective commitment was measured using items adapted from the scale developed by Allen & Meyer (1990). I adapted the items to be at the firm-level rather than at the individual level (see Appendix A for exact items). The scale reliability is 0.91.

Customer service orientation. I measured customer service orientation based on the 6-item measure developed by Susskind, et al. (2003). I adapted the items to be at the firm-level rather than at the individual level (see Appendix A for exact items).

In essence, managers were assessing the extent to which employees across the firm demonstrated behaviors indicating that the firm was high in customer service orientation. This measure of firm customer service orientation showed good reliability ($\alpha=0.88$).

Helping behaviors. I measured helping behaviors based on the measure developed by Van Dyne and Lepine (1998). I adapted the items to be at the firm-level rather than at the individual level (see Appendix A for exact items). Five items were used to assess the extent to which employees at the company help others with heavy work loads, when they are absent and return to work, or with work related problems. The scale showed good reliability ($\alpha=0.86$).

Firm Performance. Measuring firm performance in small privately held companies is a challenge because they are not required to publish financial statements and further, they may not be required to be audited. Additionally, measuring performance across firms is a challenge because different industries use varying indicators. Despite these inherent weaknesses, I measured firm performance as a percent increase in revenue over the past year. Revenue or sales is a measure that is used across industries and is less subject to variability related to cost of production, administrative costs, advertising and other costs that are not directly affected by employee attitudes and behaviors. Conversely, revenue is a measure of pure sales which are at least indirectly affected by employee productivity and success.

Control variables. I controlled for firm size because research shows that as firms grow they have more available resources to devote to the personnel function which may in turn affect their use of certain HR practices. For example, the use of high commitment HR practices creates higher labor costs per employee that may not be balanced by increased employee output in small firms (Guthrie, 2001:182). However, within larger firms these costs will be recovered making them more likely to

use such practices due to the lower HR costs per employee (Ferris, Arthur, Berkson, Kaplan, Herrell- Cook, & Frink, 1998: 256). Additionally, I controlled for firm size because it may affect leader impact on employees. Leaders in larger firms may impact employees less given that their span of control is broader, but less deep. I also controlled for company age because as firms get older, their administrative practices become more organized and they are more likely to have mature personnel functions. Age of the firm was calculated based on year of founding as identified in the survey. I also controlled for industry because the use of HCHR practices and firm performance may vary depending on industry factors. Lastly, I controlled for whether the manager responding was an HR manager versus a non-HR manager because the latter tend to be less optimistic about HR which can influence the ratings of HCHR (Wright et al., 2001).

ANALYSES AND RESULTS

Analytic Strategy

Latent-variable structural equation models (SEM) require more degrees of freedom than were available given the large number of indicators in my model (recommendation is 10 cases per parameter estimated; Klein, 2005). Thus, to assess the effect of HCHR and leadership on employee attitudes, behaviors, and firm performance I performed several nested simple maximum likelihood path models. To evaluate these models, I assessed model fit using various fit indices and the significance of the standardized path estimates (Bollen, 1989).

Before testing my hypothesized models, first, I assessed the extent to which aggregation is justified given my group level of analysis. Second, I conducted confirmatory factor analysis (CFA) model to determine discriminant validity of several measures. Lastly, I compare a sequence of nested path models to understand

which best accounts for the covariances between the exogenous and endogenous constructs.

Level of Analysis

In accordance with Kozlowski and Klein (2000), I specified the level of analysis at which each variable and associations are conceptualized. In this study, all variables are at the group level. For example, in regard to the charismatic leadership variable, I am interested in its effect across individuals and situations, rather than at the dyadic level. Further, I am interested in attitudes and behaviors at the group level. Job attitudes can be shared because employees experience similar work environments which lead to shared perceptions (Nishii et al., 2008). The shared perceptions of the work environment and ultimately job attitudes are explained by social information processing theory. Salancik & Pfeffer (1978) suggest that attitude statements are a result of three causes, one of which relates to how the social context provides information about which attitudes are appropriate. For example, “if coworkers continuously maintain that a job is horrible, boring, or undesirable, the individual must either reject their judgments or assimilate them into his or her judgment” (229). Employee behaviors- such as customer orientation or helping- can also exist at the group level through a process of norm creation. Certain units or groups can develop a norm for behavior such that it is socially desirable to engage in a particular behavior (Bommer, Dierdorff, & Rubin, 2007; Erhardt & Naumann, 2004).

Because I conceptualized charismatic leadership, affective commitment, customer service orientation, and helping at the group level, I averaged the scores of all followers for each company which is consistent with past research (Shamir et al., 1998). To justify aggregation, I calculated ICC(1), ICC(2), and Rwg values for each group-level construct. ICC(1) explains the extent to which group membership predicts variability in individual level responses; the typical range is 0.05-0.20 (Bliese, 2000).

ICC(2) explains the reliability of between-group differences on the measure; the minimum recommended value is 0.60 (Bliese, 2000). Further, the Rwg is a measure of agreement among judges' ratings of a single target (James, 1982). Table #4 displays the ICC(1), ICC(2), and Rwg values for each construct. The ICC(1) values for all constructs fall within the recommended range suggesting that there are low levels of variation across observers within firms. ICC(2) values are within the appropriate range for leadership and affective commitment, however, the values for customer service orientation fall just below the cutoff and the value for helping behaviors is well below the cutoff. The low group mean ($M = 6$) may not be sufficient to generate confidence in the aggregate score for the behavior variables. Given that the ICC(2) calculation is a reliability that is susceptible to changes in the sample size, I calculated Rwg to further validate the aggregate score of these variables. The Rwg for all variables reaches the sufficient cutoff point of 0.60 (James, 1982).

TABLE #4

Aggregation Statistics

Variable	ICC(1)	ICC(2)	Rwg (avg)
Affective Commitment	0.32	0.74	0.68
Helping	0.13	0.47	0.68
Customer Service Orientation	0.18	0.58	0.73
Leadership	0.24	0.66	0.63

Confirmatory Factor Analyses and Measurement Issues

I performed CFA to establish discriminant validity and to assess the possible influence of common method variance (Podsakoff et al., 2003) given that I use four group-level perception variables. Table #5 provides the results (Please note: CSO= customer service orientation and AC= affective commitment). The four-factor model (charismatic leadership, affective commitment, customer service orientation, and

helping loading on their own factors) demonstrated good fit ($X^2=919.55$, $X^2/df=1.762$, $p < 0.00$, $CFI=0.916$, $IFI=0.918$, $RMSEA=0.063$). Further, chi-square difference tests indicate that this four-factor model provides better fit than alternative models. This analysis provides evidence that the four variables are distinct constructs at the group level.

TABLE #5

Confirmatory Factor Analysis Results

Factor Structure	X2	df	X2/df	IFI	CFI	RMSEA	RMSEA C.I.	$\Delta X^2 (\Delta df)$
1. Four-Factor Model	919.55	522	1.762	0.918	0.916	0.063	(0.59, 0.069)	
2. Three-Factor Model: Leadership + CSO*	1350.0	525	2.571	0.829	0.826	0.09	(0.084, 0.096)	430 (3)**
3. Three-Factor Model: Leadership + AC**	1213.3	525	2.311	0.858	0.854	0.082	(0.076, 0.089)	293 (3)**
4. Three-Factor Model: Leadership + Helping	1236.1	525	2.355	0.853	0.850	0.084	(0.078, 0.090)	316 (3)**
5. Three-Factor Model: AC + Helping	1120.1	525	2.134	0.877	0.874	0.077	(0.070, 0.083)	200 (3)**
6. Three-Factor Model: AC + CSO	1158.4	525	2.207	0.869	0.866	0.079	(0.073, 0.085)	238 (3)**
7. Three-Factor Model: Helping + CSO	1093.3	525	2.082	0.882	0.880	0.075	(0.069, 0.081)	173 (3)**
8. One-factor Model:	1856.07	528	3.515	0.725	0.719	0.114	(0.109, 0.120)	936.523 (6)**

Sequence of Nested Structural Models Results

First, I examined a path model of the covariates which specifies the influence of the firm level covariates on the model including: firm age, size, industry, and whether the managerial respondent was in HR or not. These covariates accounted for 1% variance in affective commitment, 3% variance in customer service orientation, 6% variance in helping behaviors, and 4% variance in revenue. To test Hypotheses #1 and #3, in Model #1, I specified a model of the effect of HCHR practices on firm revenue through their effect on employee affective commitment, customer service orientation, helping behaviors. In this model, I do not test for direct relationships between HCHR practices and the employee behaviors or between affective commitment and performance. Despite that most hypothesized path coefficients were significant and in the correct direction (the exception is helping which will be explained more later on) (See Figure #2), the overall model fit was mixed ($X^2= 12.20$, $p < 0.05$, CFI=0.97, NFI= 0.96, NNFI= 0.73, AIC= 4.2, RMSEA=0.10) and modification indices suggested additional links between HCHR practices and customer service orientation and helping behaviors and between affective commitment and performance. Therefore, I included these additional paths in Model #2. Several hypothesized path coefficients were significant at the 0.05 level or below, except helping and performance. However the overall model fit improved ($X^2= 1.4$, $p > 0.05$, CFI=0.99, NFI= 0.99, NNFI= 0.95, AIC= -0.6, RMSEA=0.04) (See Figure #3). Additionally, a chi-square difference test indicated that Model #2 significantly fit the data better than Model #1.

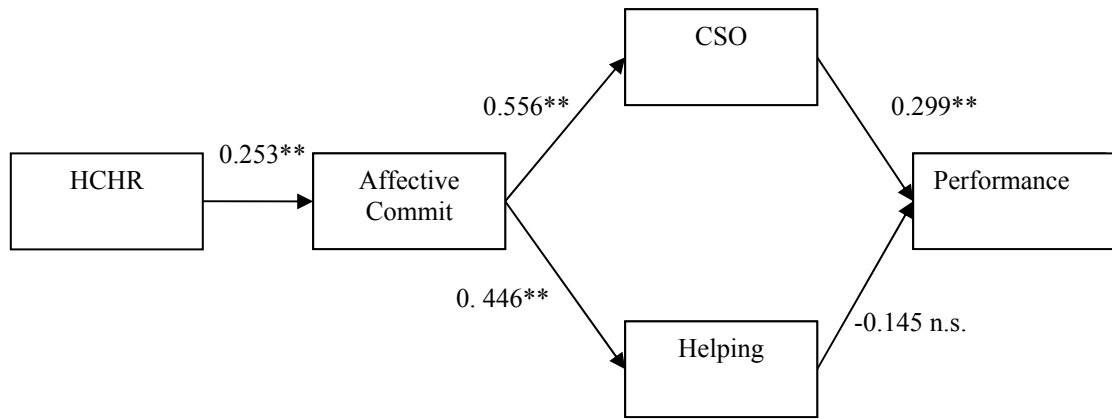


Figure #2:

Model #1- Indirect Effect of HR on Performance

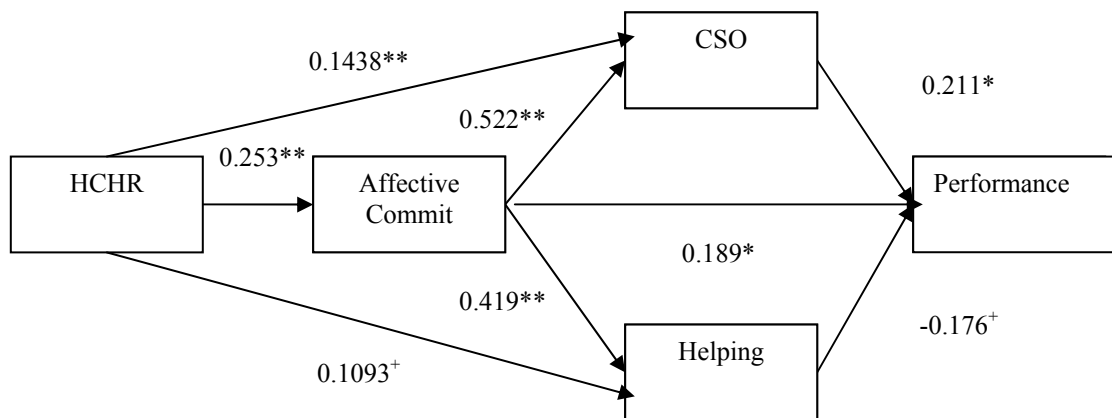


Figure #3:

Model #2- Indirect Effect of HR on Performance

To test Hypotheses #2 and #4, I specified a model of the effect of charismatic leadership on firm revenue through its effect on employee affective commitment, customer service orientation, and helping behaviors. In this model, I do not test for

direct relationships between charismatic leadership and the employee behaviors or between affective commitment and performance. Similar to above, most hypothesized path coefficients were significant and in the correct direction (the exception, again, is between helping and performance), but the overall model fit was mixed ($X^2= 27.0$, $p < 0.001$, CFI=0.93, NFI= 0.93, NNFI= 0.45, AIC=19.0, RMSEA=0.17) (See Figure #4).

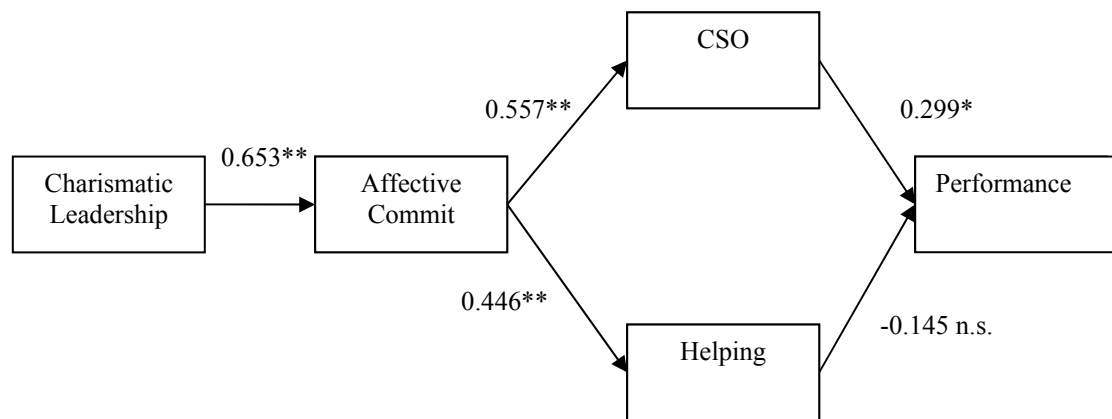


Figure #4:

Model #3- Indirect Effects of Leadership on Performance

Modification indices suggested that additional links between charismatic leadership and customer service orientation and helping behaviors and between affective commitment and performance be added; given that I hypothesized partial mediation, I included the suggested paths in Model #4 (See Figure #5). Results are similar to Model #3 in that each hypothesized path coefficient was significant at the 0.05 level or better (except for the helping to revenue path) and overall model fit improved ($X^2= 1.31$, $p > 0.05$, CFI=0.99, NFI= 0.99, NNFI= 0.97, AIC= -0.7, RMSEA=0.04) (See Figure #5).

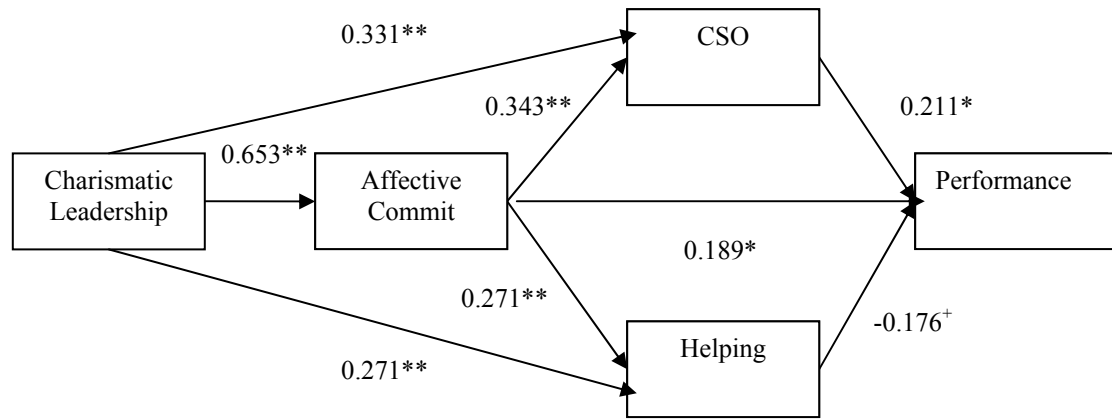


Figure #5:

Model #4- Indirect Effects of Leadership on Performance

Next, to test Hypothesis #5a and #5b, I examined the simultaneous effect of HCHR and leadership on firm performance. Model #5 specifies a model of the effect of HCHR practices and charismatic leadership indirectly through employee affective commitment, customer service orientation, and helping behaviors on firm performance. In this model, I do not test for direct relationships between the exogenous variables and employee behaviors or between affective commitment and performance. Although many of the hypothesized paths were significant and in the hypothesized direction (again, except helping), the model failed to fit the data well ($X^2 = 33.00$, $p < 0.001$, CFI=0.93, NFI = 0.93, NNFI = 0.58, AIC= 19.0, RMSEA=0.14 (See Figure #6). Modification indices suggested that paths be added between HCHR practices and helping and customer service orientation, charismatic leadership and helping and customer service orientation, and affective commitment and performance. These links are theoretically justifiable given that I hypothesized partial mediation between the exogenous variables (HCHR and leadership) and employee behaviors

(customer service orientation and helping) and between affective commitment and performance.

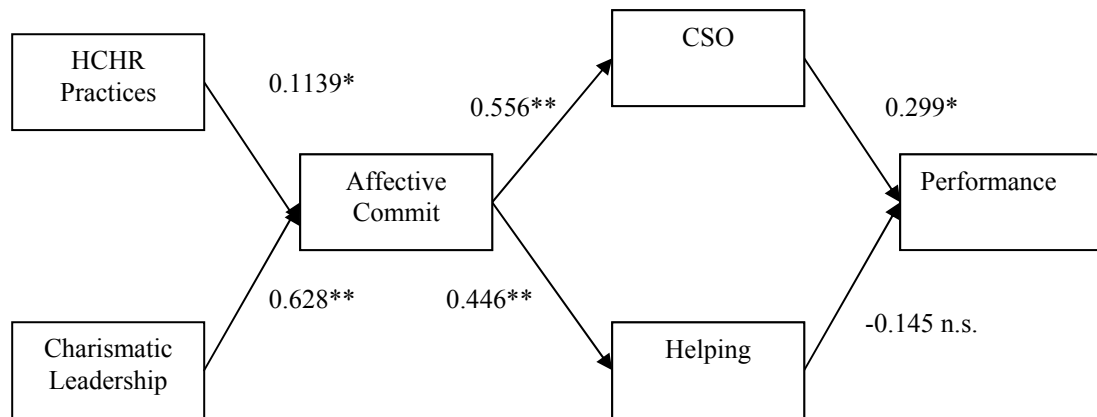


Figure #6:

Model #5- Indirect Effects of HR and Leadership on Performance

Therefore, in Model #6, I specify a model of the effect of HCHR practices and charismatic leadership on firm revenue through their effect on employee affective commitment, customer orientation, and helping behaviors, but including the direct effects of both exogenous variables on customer service orientation and helping behaviors, and the direct effect of affective commitment on firm performance. The overall model showed good fit ($X^2 = 2.64$, $p > 0.05$, CFI= 0.99, NFI= 0.99, NNFI = 0.96, AIC= -1.36, RMSEA=0.04) and a chi-squared difference test indicated that Model #6 fit the data better than Model #5 (See Figure #7).

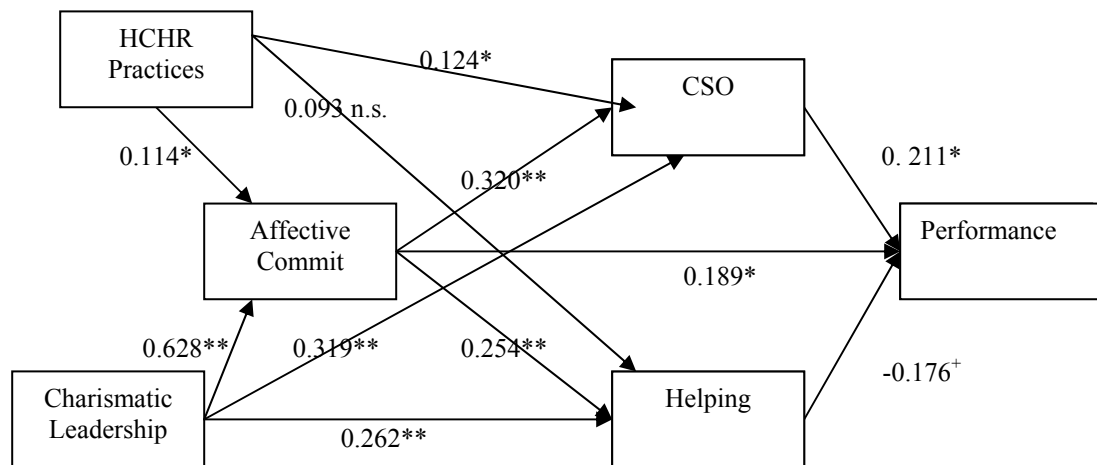


Figure #7:

Model #6- Indirect Effects of HR and Leadership on Performance

Additionally the model explained 12% of the variance in firm performance, 44% of the variance in affective commitment, 41% of the variance in customer service orientation, and 30% of the variance in helping behaviors. Both HCHR practices and leadership are significantly related to affective commitment, albeit the standardized path coefficient for leadership is larger. Further, I found that affective commitment partially mediated the relationship between charismatic leadership and both customer service orientation and helping. Similarly, affective commitment partially mediated the relationship between HCHR practices and customer service orientation, but it fully mediated the relationship between HCHR practices and helping. Affective commitment is related to both employee behaviors- customer service orientation and helping. Additionally, I found that customer service orientation was positively and significantly related to firm performance. Surprisingly, helping behaviors were negatively related to firm performance, despite the hypothesized positive relationship based on previous research; potential reasons for this finding will be discussed below. Lastly, affective commitment affects firm performance through customer service

orientation, but also directly. Table #6 provides a comparison of fit statistics for Models #1-#6.

Table #6

Model Comparison- Fit Indices

Model	X2	df	p-value	CFI	NFI	NNFI	AIC	RMSEA	$\Delta X^2 (\Delta df)$
HR Only									
Model #1	12.20	4	0.02	0.97	0.96	0.73	4.20	0.10	
Model #2	1.40	1	0.24	0.99	0.99	0.95	-0.60	0.04	10.80 (3)**
Leadership Only									
Model #3	27.00	4	< 0.001	0.93	0.93	0.45	19.00	0.17	
Model #4	1.31	1	0.25	0.99	0.99	0.97	-0.70	0.04	25.69 (3)**
HR and Leadership									
Model #5	33.00	7	<0.001	0.93	0.93	0.58	19.00	0.14	
Model #6	2.64	2	0.27	0.99	0.99	0.96	-1.36	0.04	30.36 (5)**

Note: **. Significant at the 0.01 level (2-tailed).

*. Significant at the 0.05 level (2-tailed).

DISCUSSION

In this study, I tested a model of the indirect effects of both HCHR practices and leadership on firm performance through employee attitudes and behaviors. The first contribution of this study focuses on the simultaneous effect of each variable which has previously not been examined. The standout finding from these results is that both leadership and HCHR practices significantly impact affective commitment when tested simultaneously, albeit, the standardized path coefficient for leadership is larger. This finding suggests that in small firms, both the system of practices used to manage employees and the charisma of the leader impact employees' affective commitment which lends support to my theoretical argument that each source of

competitive advantage works through a different motivational process. When I compare Model #6 (see Figure #7) to Model #2 (see Figure #3) where the only effect of HCHR practices is tested, I find that the path coefficient to affective commitment drops by 54%. Conversely, when I compare Model #6 to Model #4 where only the effect of charismatic leadership is tested, I find that the path coefficient to affective commitment drops by only 3%. This finding suggests that when charismatic leadership is included in the model with HCHR practices, the effect of these practices drops by 54%. These results point to the importance of testing for the effects of HCHR practices simultaneously in the context of other internal sources of competitive advantage because the relative effect of each can be determined. My results suggest that relative to HCHR practices, charismatic leadership has a stronger effect on employee affective commitment in small firms, but that both variables are still important.

Practically, these findings validate the importance of choosing a charismatic leader for a small firm given that they are more closely in contact with employees and these firms are less complex and more informally governed. They also provide implications for succession management in small or entrepreneurial firms where the founder is typically replaced after the initial start-up phase. Finding a CEO with charismatic characteristics will affect remaining employees and performance. But further, these findings are important for small firms because they suggest that even when a firm's leader is charismatic, another internal resource- their employment system- is important for affecting employees' attitudes and behaviors and ultimately driving performance. Small firm HR functions are less formalized and management decisions are often made on an ad hoc basis, however, this study suggests that managers of these firms would benefit from systematically investing in employees through various HCHR practices. Additionally, the use of HCHR practices are

controllable in the sense that managers can decide to implement or invest in them, whereas finding a CEO that is charismatic may be more difficult. Further, if a firm's current CEO is not charismatic, investing in HCHR practices may be worthwhile to indirectly affect performance through employees' attitudes and behaviors. In the case where a firm's CEO is charismatic, then the use of these practices will further benefit the firm.

The second contribution of this study focuses on the indirect processes through which HCHR practices and charismatic leadership affect firm performance. The results suggest that affective commitment partially mediates the relationship between charismatic leadership and both customer service orientation and helping behaviors. These results are not surprising and support my hypotheses given that additional variables besides affective commitment may mediate this relationship. For example, Podsakoff et al. (2000) suggested that several employee attitudes, task characteristics, and organizational characteristics affected helping behaviors; affective commitment is not the only possible mediator between helping behaviors and leadership. Similarly, I would expect that other attitudes or task characteristics would mediate the relationship between charismatic leadership and customer service orientation.

The relationship between HCHR practices and customer service orientation was partially mediated by affective commitment. Again, I expect that other variables would mediate this relationship for the reasons noted above. Conversely, the relationship between HCHR practices and helping behaviors was fully mediated by affective commitment. This finding is surprising given the findings from Podsakoff et al. (2000) note several other antecedents of helping behaviors. Further, the meta-analyzed effect size between affective commitment and helping is small (0.23) and in line with other attitudes (i.e., fairness, organizational commitment, trust in leader).

Further research is needed to better understand the mediating effect of affective commitment between HCHR practices and helping behaviors.

These results show that affective commitment indirectly affects firm performance through customer service orientation, but also directly which suggests that other variables mediate this relationship. Affective commitment directly affects employee helping behaviors, but the relationship between helping and firm performance was negative. This finding is surprising given that the correlation between helping and performance was positive and that theoretically, productivity and efficiency should be higher when co-workers exhibit more helping behaviors. I suggest that multicollinearity is affecting the path coefficient between helping and firm performance. I decided to leave this variable in the model despite this issue because the relationships between helping and the other variables are theoretically important and meaningful; I explore this issue further in the limitations section.

Overall, the results of this study provide support for my hypotheses. Most importantly, I found that charismatic leadership and HCHR practices affect firm performance at least indirectly through affective commitment and customer service orientation. Conclusions cannot be drawn from the helping to performance relationship and future research is needed to understand this better. These results lend support to Dyer and Reeves' (1995) position that HCHR practices most directly affect employee outcomes such as attitudes and behaviors and less directly on organizational outcomes such as revenue or profit. I found support for the indirect effect of HCHR practices on performance through these intermediary outcomes. Additionally, these results may help explain the lack of findings linking charismatic leadership directly to performance. Most studies on this topic ignore the indirect effects of charismatic leadership, yet I argue here that these are theoretically and practically important and will help explain leadership effects. Additionally, this study provides a more rigorous

test of the impact of HCHR practices and charismatic leadership by testing for their simultaneous effect on employee attitudes and behaviors.

Further, I suggested that both HCHR practices and leadership would remain significantly related to employee affective commitment because they work through two different motivational processes; the former through a process of social exchange where employees are induced to contribute and the latter by affecting employee values and self-concept which is not based on an exchange. The results of this study provide evidence of these different motivational processes because the effect of each variable remained significant. I did not directly test for these various motivational processes and certainly more research is needed to understand the mechanisms through which charismatic leadership and HCHR practices affect employees. Additionally, given that the standardized path coefficient was larger for the relationship between charismatic leadership and affective commitment, additional research is needed to understand why this occurred. For example, future research should directly test if these two variables act through different motivational processes and whether and why one process has a stronger motivational effect on employees. Empirically examining the theoretical rationale for why HCHR practices and charismatic leadership affect employee attitudes would only strengthen the case for each as complementary, but important internal sources of competitive advantage.

Limitations

Despite the contributions of this study, several limitations should be taken into consideration when interpreting the results. The data that were collected are cross-sectional and therefore, causation cannot be inferred and alternative explanations for observed results may exist. Although preferable, I did not collect lagged performance data and therefore, reverse causality may be driving my results such that firms that

perform better will invest more in HCHR practices or be able to attract more charismatic leaders.

Additionally, the items used to measure charismatic leadership, affective commitment, customer service orientation, and helping behaviors were collected from a single source at a single point in time which means that common method variance may impact the results. However, I took several procedural precautions to minimize the effect and statistical tests to assess the impact on the results. First, I used proximal and methodological techniques to minimize the effect of common method variance by separating the measurement of each construct with the measurement of constructs not used in this study. I also used different sets of instructions for the measurement of each construct and a different scale to measure charismatic leadership. Additionally, I tested for problems associated with common method variance by conducting a Harman's Single-Factor Test (Podsakoff et al., 2003). Specifically, I found that based on a chi-square difference test, that a four-factor model (including charismatic leadership, affective commitment, customer service orientation, and helping) fit the data better than a one-factor model. Further, I conducted a confirmatory factor analysis that provides evidence of the discriminant validity of each construct. Specifically, I found that a four-factor model fit the data better than plausible alternative models (See Table #5). Thus, these tests provide at least some evidence that common method variance does not drive my results.

A third limitation of this study relates to the number of companies that responded with less than four employees. Of the 192 companies responding, approximately half had less than four employees respond. Given that the constructs in this study are group-level, the low employee response rate per company may reduce the validity of these findings at the group-level of analysis. To assess whether the employee responses were representative of all employees within the companies, I

divided the number of employee respondents by the total size of the firm; the average was 16%. These results should be interpreted based on this representation and future researchers should take steps to improve the employee response rate when conducting group-level research.

Further, customer service orientation and helping behaviors appear to be strongly correlated ($r = 0.65$, $p < 0.01$) and this may cause multicollinearity which appears to affect the estimates related to helping. I believe this is the reason for the negative relationship between helping and performance. Multicollinearity creates large standard errors and therefore, inconsistent parameter estimates, however it does not affect the overall fit of the model (Grewal, Cote, & Baumgartner, 2004). The negative coefficient for helping to performance is surprising given that the bivariate correlation between helping and performance is positive ($r = 0.06$, n.s.) and helping and customer service orientation are two distinct variables based on tests of discriminant validity. For example, I conducted several alternative CFA models including the charismatic leadership, affective commitment, customer service orientation, and helping behaviors variables and found that the model combining customer service orientation and helping into one factor fits the data significantly worse than when they are distinct factors. However, the model combining these two variables fits the data second best compared to the four-factor model (see Table #5). Additionally, I conducted an EFA including only customer service orientation and helping behaviors and each factored separately into factors with eigenvalues over one. To test my theoretical argument, additional employee behaviors that are clearly distinct and not conceptually related should be included in the model.

Conclusions

Overall, this study makes several important contributions to the field of SHRM and strategic leadership. First, I internally contextualized two sources of competitive

advantage by studying both HCHR practices and charismatic leadership simultaneously and I provided evidence that both are important. Particularly, this study moves the SHRM field forward by increasing the validity of the indirect relationship between HCHR practices and performance by taking into account the effects of charismatic leadership in the model. Additionally, this study provides evidence of the indirect path between HCHR practices and charismatic leadership and performance. Following Dyer and Reeves' (1995) proposition that HCHR practices are most likely to affect employee outcomes first, I link these practices to performance through employee affective commitment and customer service orientation. Additionally, I contribute to the strategic leadership field by examining the process through which a charismatic leader affects performance, which is often ignored in previous research and may be the reason for the lack of findings. Lastly, the results show the importance of both HCHR practices and charismatic leadership in a context that is less often studied and yet makes a significant contribution to the U.S. economy. Given these findings, I hope that future research continues to take a broader perspective to studying SHRM and leadership by taking into account other important sources of competitive advantage. Additionally, future researchers should explore other mediators between these two variables and performance to assess whether these results hold for additional attitudes or behaviors not included here.

APPENDICES

APPENDIX A

Measures of High Commitment HR Practices

1. The company primarily selects based on their long-term potential to contribute to the company.
2. When interviewing for new employees, the company focuses on how well the individual fits the culture.
3. This company will leave a position open until it can find the best and brightest possible new employee.
4. When interviewing applicants, we primarily assess their ability to work with other employees in this company.
5. When evaluating job applicants, this company focuses on determining if they fit with the company's values.
6. This company has formal job duties and descriptions so that employees know their roles and responsibilities.
7. Managers follow a regular schedule in providing feedback to employees.
8. This company has a formal process of performance appraisals to provide feedback to employees.
9. This company uses individual bonuses or incentive pay to motivate employees.
10. This company uses incentives (e.g., stock options, sign-on bonuses) to attract individuals to this company.
11. This company sponsors social events so employees can get to know one another.
12. This company provides opportunities for employees to continue to learn and grow.

13. This company sponsors outside activities (e.g., sports teams, events) to build a sense of community.

Measures of Charismatic Leadership

1. Influences others by developing mutual liking and respect.
2. Engages in unconventional behavior in order to achieve organizational goals.
3. Entrepreneurial; seizes new opportunities in order to achieve goals.
4. Shows sensitivity for the needs of the other members in the organization.
5. Use nontraditional means to achieve organizational goals.
6. Readily recognizes new environmental opportunities (favourable physical and social conditions) that may facilitate achievement of organizational objectives.
7. Provides inspiring strategic and organizational goals.
8. Readily recognizes constraints in the physical environment (technological limitations, lack of resources, etc.) that may stand in the way of achieving organizational objectives.
9. Takes high personal risks for the sake of the organization.
10. Inspirational; able to motivate by articulating effectively the importance of what organizational members are doing.
11. Consistently generates new ideas for the future of the organization.
12. Exciting public speaker.
13. Often expresses personal concern for the needs and feelings of other members in the organization.
14. Often exhibits very unique behavior that surprises other members of the organization.
15. Recognizes the abilities and skills of other members of the organization.
16. Often incurs high personal cost for the good of the organization.
17. Has vision; often brings up ideas about possibilities for the future.

18. Readily recognizes constraints in the organization's social and cultural environment (cultural norms, lack of grass roots support, etc.) that may stand in the way of achieving organizational objectives.
19. Recognizes the limitations of other members of the organization.
20. In pursuing organizational objectives, engages in activities involving considerable personal risk.

Measures of Affective Commitment

1. Employees at this company would be happy to spend the rest of their careers here.
2. Employees enjoy discussing our organization with the people outside of it.
3. Employees here really feel as if this company's problems are their own.
4. This company has a great deal of meaning for the employees here.
5. Employees feel emotionally attached to this organization.

Measures of Customer Service Orientation

1. When performing their jobs, the customer is the most important thing to employees in this company.
2. Where I work, day-to-day employee actions demonstrate that customers are a top priority.
3. If possible, employees in this company meet all requests made by customers.
4. Employees in this company work to ensure that customers receive the best possible service available.
5. Employees here believe that providing timely, efficient service is a major function of their jobs.
6. Overall, our employees are known for delivering superior customer service to employees.

7. Employees have the job knowledge and skills to deliver superior quality service to customers.

Measures of Helping Behaviors

1. Employees at this company help out others who have been absent and return to work.
2. Employees at this company help out others that have heavy work loads.
3. Employees at this company help orient new employees at this company.
4. Employees at this company willingly help others who have work related problems.
5. Employees here are always ready to lend a helping hand to other employees around them.

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